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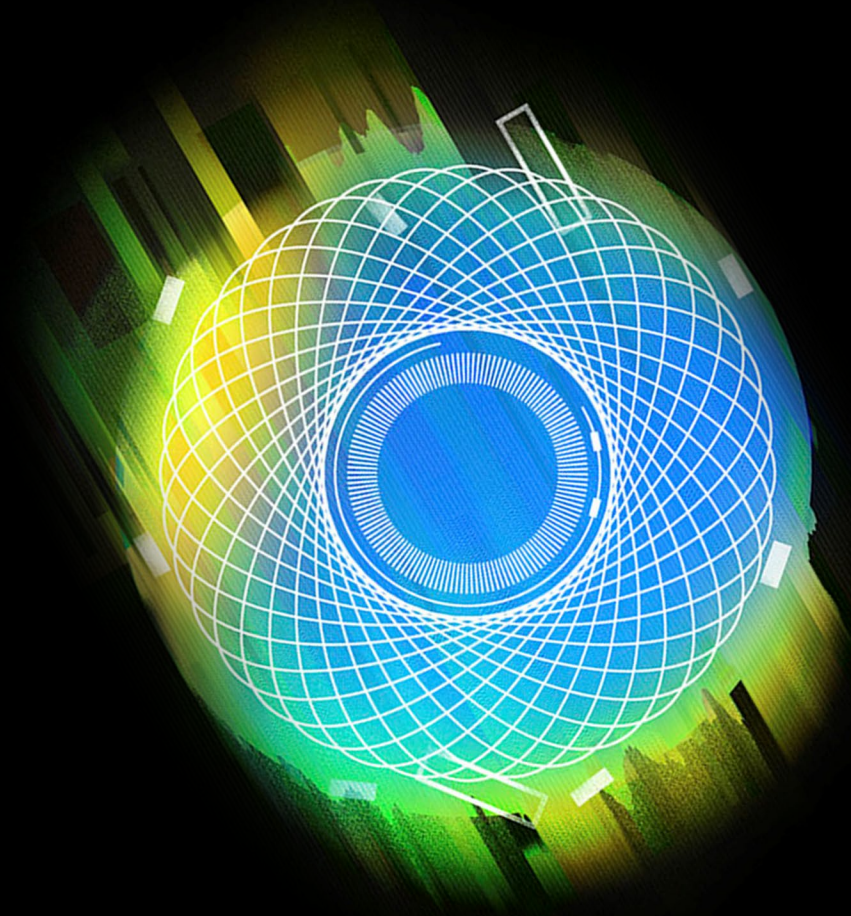
Future of Financial Crime

A "reset moment"

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Financial crime ("FC") is a huge global problem causing significant social and economic harm – linked to drug trafficking, human trafficking, terrorist atrocities and other crimes, and often associated with organised criminal groups. As gatekeepers to the global financial system, financial services ("FS") institutions play a pivotal role, invest billions annually in detecting and disrupting economic crime and the criminals that benefit from it. And the standards expected from FS institutions, not just by government, regulators, and law enforcement agencies, but also by customers and society at large, continue to increase.

The current approach to preventing FC is ineffective; an estimated 2% to 5% of global GDP[1] is being laundered but only as little as 0.2% of assets from crime are recovered[2] and the increasing costs for FS institutions are not sustainable. Across a wide range of FS institutions, the current regulatory-driven approach to fighting financial crime has several common limitations, including:

- A financial crime framework, that is too focused on 'tick-box' compliance, instead of the delivery of meaningful outcomes against criminals.

- Silo-ed capabilities to deal with FC in large FS institutions, with duplicated effort, fragmented data, and difficulties in connecting disparate risk indicators.

- Manual high-volume and low-value processes, which are both resource-intensive, requiring large operational teams, and intrusive for legitimate customers.

- Asymmetry of information, not only within FS institutions, but between FS institutions and across the wider anti-FC landscape.

- Lack of dynamic feedback loops, so each new risk or geopolitical event requires a "fire-drill" response within FS institutions and across the industry.

In a series of articles, we shall describe six key changes that in our view, can be implemented incrementally, to drive a material shift in tackling the threat from FC and improving outcomes. Before looking at these changes, it is important to understand what is driving the need for change now.

"Against this volatile and complex backdrop, the Financial Services industry has reached a 'reset moment': a time to rethink the response to financial crime."

Drivers of change

Our research has identified a range of factors driving change that are increasing in importance, which not only increase the FC risks, but also create opportunities for FS institutions to act in more innovative ways to combat it.

Market and regulatory drivers of change

The market and regulatory environment in which FS institutions operate is evolving, with new risks and threats emerging.

The Russia-Ukraine war and conflict in the Middle East have changed the counter-terrorism risk profile and sanctions landscape significantly, creating more stringent and complex obligations for FS institutions, including heightened requirements for dealing with the circumvention of sanctions. And as geopolitical instability continues in a number of regions of the world, this is likely to be an ongoing concern over the coming 12-24 months, at least.

At the same time, the incidence of fraud has risen exponentially, driven by digitisation, the impact of COVID and the cost-of-living crisis. Modern slavery and human trafficking are on the increase, exacerbated by conflict. Corruption continues to undermine living conditions and proper governance in a number of countries. Meanwhile, the climate change crisis is leading to a scarcity of natural resources and changes to migration patterns.

On a European Union level, the anti-money laundering package will have a significant impact on the regulatory environment. The package consists of legislative proposals to strengthen the EU's rules on AML/CTF through

- a regulation establishing a new EU AML authority (AMLA),

- a regulation recasting the regulation on transfers of funds,

- a regulation on AML requirements for the private sector and.

- a directive on AML mechanisms.

The parts of the AML package will have to be applied by financial institutions. In January 2024, the EU Parliament and the EU Council agreed on the "Single Rulebook" regulation, which is a regulation that aims to ensure a consistent application of the new AML/CTF regulations across the European Union.

When the AML package is published in the EU Official Journal the regulations become valid and must be implemented and entered into force within 36 months in each member state. Currently the European Union expects to publish the act in the Official Journal in 2024.

Industry drivers of change

The FS industry itself continues to undergo transformation, as markets and products are subject to rapid innovation and disruption.

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In payment services for example, embedded finance and large tech vendors such as Apple, Alphabet and Amazon are entering the FS space. New business models have emerged, and open banking is creating a digital-first approach to interacting with customers. Payments are becoming faster - which means that the underlying architecture, including the FC approach, needs to respond faster - and digital assets are introducing new types of risks, whilst attracting greater regulatory scrutiny.

As the industry evolves, so too do the expectations of customers, who demand a client experience that is faster, more seamless, integrated, and personalised than before. Additionally, the workforce has a greater focus on flexibility, purpose, and trust; and as digital natives, customers are much more familiar with technology and expect this to be reflected in how they interact with FS institutions.

Technology and data drivers of change

We cannot ignore the continuing impact of technology change. A number of key technology trends are converging that will transform the approach to tackling FC. Artificial intelligence (AI), machine learning (ML), and cloud computing create opportunities for innovation and automation of data gathering, data analysis and pattern recognition. The flip side, of course, is that we see criminals taking advantage of these capabilities, to perpetrate more complex frauds.

The external data landscape is also changing. There is an increasing focus on information sharing to improve FC detection and prevention – both public-to-private and private-to-private - with notable examples including SAMLIT in Sweden and TMNL in the Netherlands. There is also much more data available, from third parties, open sources, and social media.

In response to this changing data landscape, more work will need to be done to ensure that FS institutions understand how to receive, analyse, and share information in an accurate and timely manner, whilst respecting data privacy and Consumer Duty rules.

While this may take time, the potential value and impact of these changes make it an exciting development.

So, what does all this mean for the future of FC?

All these drivers of change mean that the existing framework for dealing with FC is no longer fit for purpose and must evolve. We have reached a tipping point, or a "reset moment", and we believe that the successful implementation of *six key changes* is required, as follows:

- Intelligence-led risk management

- Dynamic customer lifecycle management

- Convergence of monitoring capabilities

- Operations - but not as we know it

- A proactive and collaborative financial intelligence unit (FIU)

- Integrated data and technology infrastructure

We will discuss each of these changes in our upcoming series of articles on the Future of Financial Crime. Although these concepts have been discussed individually, the greatest opportunity to drive material change is when these are combined to build a dynamic and timely view of the risks each customer presents.

This will help provide focus and ensure appropriate resources are prioritised on the areas that are going to have the most impact. As threats evolve, we need connected intelligence, combined with due diligence and monitoring, and a dynamic control environment, which is all underpinned by the right technology. This is an integrated future for FC, that is more effective and more efficient.

Get in touch

Please get in touch if you would like to discuss this topic further. Also look out for future articles in our Future of Financial Crime series – up next, a focus on intelligence-led risk management– what this means, why it's important, and some of the areas that need to be a focus over the short, medium, and longer-term.

Sofus Emil Tengvad
Managing Partner
Forensic
stengvad@deloitte.dk
+45 30 38 03 27

Rasmus Grejs Beyer
Partner
Financial Crime Advisory
rbeyer@deloitte.dk
+45 24 94 59 22

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